

CRYSTAL FALLS FIRE AUTHORITY

CRYSTAL FALLS, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
NOVEMBER 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CRYSTAL FALLS FIRE AUTHORITY	County IRON
Audit Date 11/30/04	Opinion Date 5/20/05	Date Accountant Report Submitted to State: 6/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓


Certified Public Accountant (Firm Name) DS ROSTAGNO, CPA, P.C.			
Street Address 101 WEST MAPLE STREET	City IRON RIVER	State MI	ZIP 49935
Accountant Signature 		Date 6/30/05	

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
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Governing Board
Crystal Falls Fire Authority
Crystal Falls, MI 49927

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the **Crystal Falls Fire Authority**, as of and for the year ended November 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, each major fund, and the aggregate remaining fund information of the **Crystal Falls Fire Authority** at November 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2005, on our consideration of the **Crystal Falls Fire Authority's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 7 through 13 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Crystal Falls Fire Authority's** basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

May 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Crystal Falls Fire Authority

Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920

The management of the **Crystal Falls Fire Authority** provides this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended November 30, 2004. As readers, you are encouraged to read this discussion and analysis in conjunction with the Authority's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Authority is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

The Fire Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Authority are governmental funds.

Crystal Falls Fire Authority

Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The Fire Authority maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and capital project fund.

The Fire Authority adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, and is included in the "Required Supplementary Information" section of this document.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and include budgetary comparison schedules for the General Fund as presented in the governmental fund financial statements.

Crystal Falls Fire Authority

Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Fire Authority, assets exceeded liabilities by \$ 282,157 at November 30.

By far, the largest portion of the Authority's net assets is in its cash and investments. And, as of November 30, 2004, the Authority had prepaid expenses of \$ 91,282, which consisted entirely of a deposit on a new fire truck. In addition, the Authority had net capital assets of \$ 14,257. These capital assets are used to provide services to citizens and are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At November 30, 2004, the Authority reported \$ 14,257 in net assets invested in capital assets net of related debt.

In a condensed format, the following is a summary of the Authority's net assets at November 30, 2004. Although GASB 34 requires that comparative financial data be presented, since this is the first year of implementation, prior year data is not available. Comparative financial data will be included in this schedule on subsequent years.

	<u>Governmental Activities</u>
<u>Assets</u>	
Current and other assets	\$ 294167
Capital assets, net	<u>14257</u>
Total Assets	308424
<u>Liabilities</u>	
Long-term liabilities	0
Other liabilities	<u>26267</u>
Total liabilities	\$ 26267

Crystal Falls Fire Authority

Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920

Government-wide Financial Analysis (Continued)

	<u>Governmental Activities</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	\$ 14257
Restricted	0
Unrestricted, undesignated	<u>267900</u>
Total net assets	\$ 282157

For governmental activities, net assets increased by \$ 146,799 during the year.

The following represents the change in net assets for the Authority's governmental funds for the fiscal year ended November 30, 2004. (Please note that since this is the first year of implementation of GASB 34, prior year financial data is not available, but will be provided in subsequent years)

	<u>Governmental Activities</u>
REVENUES:	
<u>Program Revenues:</u>	
Charges for services	\$ 257780
Operating grants and contributions	0
Capital grants and contributions	162500
<u>General Revenues</u>	
Investment earnings	1790
Other	<u>130</u>
TOTAL REVENUES	\$ 422200

Crystal Falls Fire Authority

Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920

Government-wide Financial Analysis (Continued)

	<u>Governmental Activities</u>
EXPENSES:	
Fire Protection	\$ 271371
Depreciation	<u>4030</u>
Total governmental expenses	\$ 275401
 Increase (Decrease) in Net Assets	 146799
 Net Assets, beginning of year	 <u>135358</u>
 Net Assets, end of year	 \$ <u>282157</u>

Governmental Activities

The Authority received capital grants from federal sources in the amount of \$ 162,500, consisting of \$ 157,500 (with a local match of \$ 17,500) from FEMA for a new fire truck, and a Homeland Security Grant in the amount of \$ 5,000 to be used for fire fighting equipment.

A total of \$ 257,780 was received from assessments from participating units of government.

The Fire Authority expended \$ 275,401 on governmental program and services. The largest expense category was incurred for fire protection, which totaled \$ 271,371 or approximately 98.5 percent of total expenditures. Of this amount, \$ 250,730 was paid for wages and fringe benefits.

Financial Analysis of the Governmental Funds

As previously noted, the authority uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Crystal Falls Fire Authority

Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920

Governmental Funds

The focus of the Fire Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Authority's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Authority's governmental funds reported combined ending fund balances of \$ 267,900, of which all is unreserved and is available for spending at the government's discretion.

On the budgetary basis of accounting, the Authority ended the fiscal year with revenues substantially higher than the original or final projection. Total expenditures were also somewhat higher than the original or final projection. At fiscal year end, the fund balance was higher than either the original or the final amended budget projections.

General fund financial and budgetary highlights of the fiscal year include:

- Fire service revenue was very close to budgetary projections.
- Intergovernmental revenue (capital assets) were not budgeted for in either the original or the final budgetary projections. Thus, this line item came in \$ 162,500 over budget.
- Expenditures in total for the general fund were \$ 19,021 more than the original and final amended budget of \$ 257,420. This was due to capital outlay of \$ 5,070, which had not been budgeted for, and wages and fringe benefits coming in higher than budgeted allowances.

Capital Asset and Debt Administration

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, for its governmental activities as of November 30, 2004 is \$ 14,257. The investment in capital assets consists primarily of fire truck and equipment, protective gear, communications equipment, and other safety equipment.

There were no major capital events during the current year.

Crystal Falls Fire Authority

**Fourth Street and Superior Avenue
CRYSTAL FALLS, MICHIGAN 49920**

Long-term Debt

As of November 30, the Fire Authority had no long-term debt.

The following areas highlight the Fire Authority's priorities and accomplishments:

The first and foremost priority of the **Crystal Falls Fire Authority** is to provide fire protection to area residents at a reasonable cost, while equipping fire-fighters with adequate tools and equipment to assure their safety. With the help of grants and annual payments by the participating local units of government, the Fire Authority has been able to keep this equipment up-to-date. As of November 30, 2004, the Authority was awaiting the delivery of a new fire truck, funded in part by a federal grant.

Requests for Information

This financial report is designed to provide a general overview of the Fire Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Crystal Falls Fire Authority
P.O. Box 329
Crystal Falls, Michigan 49920

BASIC FINANCIAL STATEMENTS

CRYSTAL FALLS FIRE AUTHORITY

STATEMENT OF NET ASSETS

NOVEMBER 30, 2004

<u>ASSETS</u>	<u>Governmental Activities</u>
<u>Current Assets</u>	
Cash and Investments (Note C)	\$202885
Prepaid Expenses	91282
<i>Total Current Assets</i>	<u>\$294167</u>
<u>Noncurrent Assets</u>	
Capital Assets, Net (Note H)	<u>14257</u>
<i>Total Noncurrent Assets</i>	14257
TOTAL ASSETS	\$308424
 <u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	16668
Accrued Expenses	<u>9599</u>
<i>Total Current Liabilities</i>	26267
<u>Noncurrent Liabilities</u>	
Bonds/Notes Payable	<u>0</u>
<i>Total Noncurrent Liabilities</i>	0
TOTAL LIABILITIES	\$26267
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	14257
Restricted for Capital Outlay	0
Unrestricted, Undesignated	<u>267900</u>
TOTAL NET ASSETS	<u>\$282157</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED NOVEMBER 30, 2004

Functions/Programs	PROGRAM REVENUES				Net(Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Capital Grants	Operating Grants and Contributions	Governmental Activities
Public Safety					
Fire Protection	\$271371	\$257780	\$162500		\$148909
Intergovernmental	0				0
Depreciation (Unallocated)	4030				-4030
Total Governmental Activities	\$275401	\$257780	\$162500	\$0	\$144879
General Revenues:					
Interest and Investment Earnings					1790
Miscellaneous					130
Total General Revenues					1920
Change in Net Assets					146799
Net Assets - Beginning of year					135358
Net Assets - End of year					\$282157

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

NOVEMBER 30, 2004

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Investments (Note C)	\$202885		\$202885
Prepaid Expenses	<u>91282</u>	<u></u>	<u>91282</u>
TOTAL ASSETS	<u>\$294167</u>	<u>\$0</u>	<u>\$294167</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<i>Liabilities</i>			
Accounts Payable	16668	0	16668
Accrued Expenses	<u>9599</u>	<u></u>	<u>9599</u>
Total Liabilities	26267	0	26267
<i>Fund Balances</i>			
Reserved for Capital Projects			0
Unreserved, Undesignated	<u>267900</u>	<u></u>	<u>267900</u>
Total Fund Balances	267900	0	267900
TOTAL LIABILITIES AND FUND BALANCES	<u>\$294167</u>	<u>\$0</u>	<u>\$294167</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**GOVERNMENTAL FUNDS
RECONCILLATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS**

NOVEMBER 30, 2004

Fund Balances - Total Governmental Funds

\$267900

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:

205256

Accumulated depreciation is:

-190999

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable

0

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

0

Accrued interest is not included as a liability
in governmental funds

0

Amounts due to other non-governmental funds
are not reported in the government-wide financial
statements

0

Total Net Assets - Governmental Activities

\$282157

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED NOVEMBER 30, 2004

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Local Unit Assessments	\$257780		\$257780
Use of money and property	561	1229	1790
Miscellaneous	130		130
Intergovernmental	162500		162500
Total Revenues	\$420971	\$1229	\$422200
<u>Expenditures</u>			
Current Operating:			
Public Safety	271371		271371
Capital Outlay	5070		5070
			0
Total Expenditures	\$276441	\$0	\$276441
Excess (Deficiency) of Revenues Over Expenditures	144530	1229	145759
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	67468	0	67468
Operating transfers out	0	-67468	-67468
Total Other Financing Sources(Uses)	67468	-67468	0
Net Change in Fund Balances	211998	-66239	145759
Fund Balances - Beginning of year	55902	66239	122141
Fund Balances - End of year	<u>\$267900</u>	<u>\$0</u>	<u>\$267900</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**GOVERNMENTAL FUNDS
RECONCILIATION OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED NOVEMBER 30, 2004

Net Change in Fund Balances - Total Governmental Funds

\$145759

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense

-4030

Capital Outlay

5070

Total

1040

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

0

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

0

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

0

Increases Decreases in compensated absences are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

0

Change in Net Assets of Governmental Activities

\$146799

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS**

NOVEMBER 30, 2004

	<u>Agency Fund</u>
<u>ASSETS</u>	
Investments	<u>\$26676</u>
TOTAL ASSETS	\$26676
 <u>LIABILITIES</u>	
Deferred Compensation Payable	<u>\$26676</u>
TOTAL LIABILITIES	\$26676
 NET ASSETS	 <u><u>\$0</u></u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **Crystal Falls Fire Authority**, Crystal Falls, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The **Crystal Falls Fire Authority** was organized on August 1, 1990 pursuant to PA 7 of 1967. The Authority was established to provide fire protection for Crystal Falls Township and the City of Crystal Falls. A five member board administers the affairs of the Fire Authority.

The criteria established by GASB Statement 14, The Financial Reporting Entity, is used to determine the primary governmental unit and the component units to be included in the financial reporting entity.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

This Statement describes the characteristics of a primary governmental unit, which includes a separately elected governing board, legally separate government possessing corporate power and separate legal standing, and fiscal independence. GASB 14 also provides criteria for defining the component unit, based on the fundamental concept of accountability.

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Authority.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the local unit that it is, in substance, the same as the local governmental unit.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government.

This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements. When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

On the basis described above, there are no discretely presented units, nor are there any blended component units whose financial statements are included in the financial statements of the **Crystal Falls Fire Authority**.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

There are no joint ventures to be reported.

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

There are no jointly governed organizations to be reported.

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to be reported.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION

The Fire Authority follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

***Government-wide financial statements
(Continued)***

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Annual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units, when applicable.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expenses - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of program activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Fire Authority and many other governments revise their original budgets over the course of the year for a variety of reasons.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Fire Authority as a whole) and fund financial statements. The reporting model focus is on both the Fire Authority as a whole and the fund financial statements, including the major individual funds of the governmental categories, as well as the fiduciary funds.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental. In the government-wide Statement of Net Assets, the governmental column (a) is presented, and (b) is reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both government-wide and fund financial statement presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The Fire Authority generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The Fire Authority may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety) that is otherwise being supported by general government revenues (Interest and Investment earnings). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety).

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

Program revenues include 1) charges to customers for fire protection and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported as general revenues. The Fire Authority does not allocate indirect expenses. When applicable, the operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Fire Authority are organized on the basis of funds.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The Authority's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The following is a brief description of the specific funds used by the Fire Authority.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the Fire Authority's expendable financial resources and the related current liabilities are accounted for through the Governmental Funds. These funds are as follows:

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

GOVERNMENTAL FUNDS (Continued)

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

Revenues are derived primarily from assessments from the participating municipalities.

For reporting purposes, the General fund is always considered to be a major fund.

Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

FIDUCIARY FUNDS

The fiduciary funds category consists of a single fund type, the *trust and agency fund type*, comprised of the following funds:

- . *Expendable trust funds* are used to account for assets a government holds in a trustee capacity for others when both the principal and the income earned by the principal may be used for the purpose specified in the trust agreement. A common example is a trust fund that accepts donations for use as specified by the donor.
- . *Nonexpendable trust funds* account for assets a government holds in a trustee capacity for others when the principal of the trust must be held intact and only the income earned by the principal may be used for the purpose specified in the trust agreement.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

FIDUCIARY FUNDS (Continued)

- . Agency funds are clearing accounts used to account for assets held for other funds, governments, or individuals.

Expendable trust funds and agency funds are accounted for on the modified accrual basis of accounting, similar to a governmental fund. Nonexpendable trust funds are accounted for on the accrual basis of accounting, similar to a proprietary fund.

The Authority has only one fiduciary fund - a trust and agency fund. It is used to hold funds for the employee's contributions to the deferred compensation plan.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements.

Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets.

The statement of net assets and statement of activities are presented on the accrual basis of accounting.

Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

It is the Fire Authority's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The Fire Authority pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The Fire Authority classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

RECEIVABLES

All receivables are reported at their gross value.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year-end have been recorded as interfund accounts receivable and payable. These interfund receivables and payables do not represent Board-approved loans between funds.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expended as received.

BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles.

The budget basis of accounting does not differ significantly from the modified accrual basis to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. Unexpended appropriations lapse at fiscal year-end.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes.

Designated fund balances represent amounts earmarked by the Authority for future expenditures.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General Fund (and as assets in the governmental-wide statements to the extent the Fire Authority's threshold of \$ 500 is met.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings 20 - 30 years

Infrastructure 10 - 65 years

Furniture and Other

Equipment 5 - 20 years

BUDGETS AND BUDGETARY ACCOUNTING

The Fire Authority follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

Annual appropriated budgets are adopted for the general fund. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to November 30 of the preceding fiscal year, the Fire Authority prepares a budget for the next fiscal year beginning December 01. The operating budget includes proposed expenditures and the means of financing them.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

2. A meeting of the Fire Authority Board is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to December 01, the budget is legally enacted through passage of a resolution by the members of the Fire Authority Board.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Fire Authority Board. Amendments are presented to the Fire Authority Board at their regular meetings. Each amendment must have Fire Board approval.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

COMPENSATED ABSENCES

Vacation and sick leave are forfeited upon termination. Vacation can be accumulated up to 24 days. Sick leave accumulates at the rate of one day per month, up to a maximum of 100 days.

Vacation and sick leave not used within the fiscal year, plus the related FICA, Medicare, and pension expense would result in an estimated liability of \$ 38,398.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES (Continued)

That which could be reasonably expected to be used within the current 12 month period has been recognized in the current period.

DEFERRED COMPENSATION

The Crystal Falls Fire Authority has a 457 deferred compensation plan which is administered through Nationwide Retirement Solutions, Inc. Section 457 plans are retirement plans that allow participants to be sheltered from recognizing gross income until such funds are distributed.

The 457 deferred compensation plan reports its assets and liabilities in the government's expendable trust fund.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DEFERRED COMPENSATION (CONTINUED)

Expendable trust funds are accounted for on the modified accrual basis of accounting.

The most recent period for which the investment activity data was available was for September 30, 2004.

POST-EMPLOYMENT BENEFITS

The Authority offers no post-employment benefits.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

OPERATING TRANSFERS

Interfund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended November 30, 2004, the Authority had operating transfers of \$ 67,468.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Authority funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE B - INTERFUND ACTIVITIES

INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables do not represent interfund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

On November 30, 2004, the Authority had no interfund receivable/payable.

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

PRIMARY GOVERNMENT

On November 30, 2004, the carrying value of the Fire Authority's deposits (Primary Government) was \$ 202,885 and is comprised of cash and deposits reflected in the following funds:

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

<u>Governmental Funds</u>	
General Fund	\$ 202885
Total Governmental Funds	\$ 202885

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

The three levels of risk are as follows:

Category 1	Deposits which are insured or collateralized with securities held by the Fire Authority or by its agent in the Fire Authority's name.
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CRYSTAL FALLS FIRE BOARD

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

Category 2	Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Fire Authority's name.
Category 3	Deposits which are not collateralized or insured.

Based on these levels of risk, the Fire Authority's cash deposits (Primary Government) are classified as follows:

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

SCHEDULE OF CASH AND DEPOSITS

	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Total</u>
Cash and Deposits	\$ 179318	\$ -0-	\$ 23567	\$ 202885

INVESTMENTS

The Authority's investments are categorized below to give an indication of the level of risk assumed at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Authority's name.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 3 includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Authority's name.

	Category 1	Category 2	Category 3	Carrying Value	Market Value
<u>Investment Type</u>	\$	\$	\$	\$	\$
Deferred Compensation Plan	-0-	-0-	26676	26676	26676
Total	\$ -0-	\$ -0-	\$ 26676	\$ 26676	\$ 26676

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Authority to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

The Authority's deposits and investments are in compliance with statutory authority.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE D - PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

The Crystal Falls Fire Authority is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and the beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

The plan is funded through contributions by the Crystal Falls Fire Authority. Employees of the Crystal Falls Fire Authority are covered in conjunction with the employees of the City of Crystal Falls.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

DESCRIPTION OF PLAN AND PLAN ASSETS
(Continued)

MERS was organized pursuant to Section 12(a) of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by negotiation with the **Crystal Falls Fire Authority's** competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Fire Authority is required to contribute at an actuarially determined rate; the current rate was 7.16 percent at December 31, 2003.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION COST

During the fiscal year ended November 30, 2004, the Fire Authority's contributions totaling \$ 8,556 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 AND GASB 27 INFORMATION

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 1945325
Terminated employees not yet receiving benefits	7418

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/03)
(Continued)

Actuarial Accrued Liability (Continued)

Current employees -	
Accumulated employee contributions including allocated investment income	\$ 71069
Employer Financed	3211696
Total Actuarial Accrued Liability	5235508
Net Assets Available for Benefits at Actuarial Value	5146395
(Market Value is \$ 4699213)	
Unfunded (Overfunded) Actuarial Accrued Liability	\$ 89113

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

GASB 27 INFORMATION (as of 12/31/2003)

Fiscal Year Beginning	January 01, 2005
Annual Required Contribution (ARC)	\$ 87168
Amortization Factor Used -	
Underfunded Liabilities (30 years)	0.053632
Overfunded Liabilities (10 years)	0.119963

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)

BUDGET VIOLATIONS (Continued)

The Crystal Falls Fire Authority's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the Crystal Falls Fire Authority were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The total actual 2003-2004 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 22,421, contrary to the provisions of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act".

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)

BUDGET VIOLATIONS (Continued)

<u>General Fund</u>	<u>Actual</u>	<u>Budget</u>
Wages	\$ 166757	\$ 164770
Fringe Benefits	83973	77200
Insurance	2848	1550
Tools and Supplies	1725	1500
Protection Costs	6310	500
Maintenance and Repair	1740	600
Miscellaneous	618	500
Capital Outlay	5070	-0-

NOTE F - ACCUMULATED FUND DEFICITS

At November 30, 2004 the Authority had no fund balance/retained earnings deficit in any fund.

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2004

NOTE G - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in the past three fiscal years.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended November 30, 2004.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Balance November 30, 2003	Increases	Decreases	Balance November 30, 2004
<u>Capital Assets Not Being Depreciated</u>				
Land and Land Improvements	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Capital Assets Not Being Depreciated	\$ -0-	\$ -0-	\$ -0-	\$ -0-
<u>Other Capital Assets</u>				
Buildings	-0-	-0-	-0-	-0-
Furniture & Other Equip.	200186	5070	-0-	205256
Total Other Cap. Assets	\$ 200186	\$ 5070	\$ -0-	\$ 205256
<u>Less Accumulated Depreciation for:</u>				
Buildings	-0-	-0-	-0-	-0-
Furniture & Other Equip.	(186969)	(4030)	-0-	(190999)
Total Accum. Depreciation	(186969)	(4030)	-0-	(190999)
Other Capital Assets, Net	13217	1040	-0-	14257
TOTALS	\$ 13217	\$ 1040	\$ -0-	\$ 14257

CRYSTAL FALLS FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

NOVEMBER 30, 2004

NOTE I - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

CRYSTAL FALLS FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOVEMBER 30, 2004

NOTE J - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended November 30, 2004, there were no subsequent events that would have a significant affect on the Authority's operations.

NOTE K - COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies to be reported for the **Crystal Falls Fire Authority** for the fiscal year ended November 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

CRYSTAL FALLS FIRE AUTHORITY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

YEAR ENDED NOVEMBER 30, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<u>Revenue</u>			
Local Unit Assessments	\$257620	\$257620	\$257780
Use of money and property	0	0	561
Other revenue	0	0	130
Intergovernmental	<u>0</u>	<u>0</u>	<u>162500</u>
Total Revenue	\$257620	\$257620	\$420971
<u>Expenditures</u>			
Public Safety	257420	257420	271371
Capital Outlay	<u>0</u>	<u>0</u>	<u>5070</u>
Total Expenditures	\$257420	\$257420	\$276441
<u>Other Financing Sources (Uses)</u>			
Transfer In (Out)	0	0	67468
Net Change in Fund Balance	200	200	211998
Fund Balance -Beginning of year	<u>55902</u>	<u>55902</u>	<u>55902</u>
Fund Balance - End of year	<u><u>\$56102</u></u>	<u><u>\$56102</u></u>	<u><u>\$267900</u></u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

CRYSTAL FALLS FIRE AUTHORITY

**COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES**

FISCAL YEAR ENDED NOVEMBER 30, 2004

	<u>GOVERNMENTAL FUND TYPE</u>		<u>TOTAL</u>
	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	
<u>ASSETS</u>			
Cash and Deposits	\$202885		\$202885
Investments			
Prepayment on Fire Truck	91282		91282
TOTAL ASSETS	<u>\$294167</u>	<u>\$0</u>	<u>294167</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	16668		16668
Deferred Compensation Payable			
Accrued Expenses	9599		9599
Total Liabilities	<u>26267</u>	<u>0</u>	<u>26267</u>
<u>FUND BALANCE</u>			
Unreserved	267900		267900
TOTAL LIABILITIES AND FUND BALANCE	<u>\$294167</u>	<u>\$0</u>	<u>294167</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY-
ALL GOVERNMENTAL FUND TYPES**

FISCAL YEAR ENDED NOVEMBER 30, 2004

	GOVERNMENTAL FUND TYPES		TOTALS (Memorandum Only)
	GENERAL FUND	CAPITAL PROJECTS FUND	
<u>REVENUE</u>			
Local Sources			
Assessments	\$257780		\$257780
Interest	561	1229	\$1790
Donations	0		\$
Miscellaneous	130		\$130
Total Local Sources	258471	1229	\$259700
Federal Sources			
Grants	162500		\$162500
Total Federal Sources	162500	0	\$162500
TOTAL REVENUE	420971	1229	\$422200
<u>EXPENDITURES</u>			
Wages	166757		166757
Fringe Benefits	83973		83973
Professional Fees	0		0
Utilities	6572		6572
Insurance	2848		2848
Tools and Supplies	1725		1725
Protection Costs	6310		6310
Maintenance and Repair	1740		1740
Dues and Subscriptions	45		45
Telephone	783		783
Travel and Education	0		0
Miscellaneous	618		618
Capital Outlay	5070		5070
TOTAL EXPENDITURES	276441	0	276441
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In (Out)	67468	(67468)	0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	211998	(66239)	145759
FUND BALANCE, DEC 1	55902	66239	122141
FUND BALANCE, NOV 30	\$267900	\$0	\$267900

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

BALANCE SHEET-GENERAL FUND*NOVEMBER 30, 2004*

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Investments (Note C)	\$202885
Prepaid Expenses	<u>91282</u>
TOTAL ASSETS	<u>\$294167</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<i>Liabilities</i>	
Accounts Payable	16668
Accrued Expenses	<u>9599</u>
<i>Total Liabilities</i>	26267
<i>Fund Balances</i>	
Unreserved, Undesignated	<u>267900</u>
<i>Total Fund Balances</i>	267900
TOTAL LIABILITIES AND FUND BALANCES	<u>\$294167</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY-ACTUAL AND
BUDGET - GENERAL FUND**

FISCAL YEAR ENDED NOVEMBER 30, 2004

	<u>ACTUAL</u>	<u>BUDGET</u>	VARIANCE Favorable (Unfavorable)
<u>REVENUE</u>			
Local Sources			
Assessments	\$257780	\$257620	\$160
Interest	561		561
Donations	0		0
Miscellaneous	130		130
Total Local Sources	<u>258471</u>	<u>257620</u>	<u>851</u>
Federal Sources			
Grants	162500	0	162500
Total Federal Sources	<u>162500</u>	<u>0</u>	<u>162500</u>
TOTAL REVENUE	\$420971	\$257620	\$163351
<u>EXPENDITURES</u>			
Wages	166757	164770	-1987
Fringe Benefits	83973	77200	-6773
Professional Fees	0	500	500
Utilities	6572	9000	2428
Insurance	2848	1550	-1298
Tools and Supplies	1725	1500	-225
Protection Costs	6310	500	-5810
Maintenance and Repair	1740	600	-1140
Dues and Subscriptions	45	100	55
Telephone	783	1200	417
Travel and Education	0	0	0
Miscellaneous	618	500	-118
Capital Outlay	5070	0	-5070
TOTAL EXPENDITURES	\$276441	\$257420	-\$19021
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In (Out)	<u>67468</u>	<u>0</u>	<u>67468</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	211998	200	211798
FUND BALANCE, DEC 1	<u>55902</u>		
FUND BALANCE, NOV 30	<u>\$267900</u>		

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**BALANCE SHEET
CAPITAL PROJECTS FUND**

NOVEMBER 30, 2004

	<u>Capital Projects Fund</u>
<u>ASSETS</u>	
Cash and Investments (Note C)	<u>\$0</u>
TOTAL ASSETS	<u>\$0</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<i>Liabilities</i>	
Accounts Payable	<u>0</u>
<i>Total Liabilities</i>	0
<i>Fund Balances</i>	
Reserved for Capital Projects	0
Unreserved, Undesignated	<u>0</u>
<i>Total Fund Balances</i>	0
TOTAL LIABILITIES AND FUND BALANCES	<u>\$0</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY
ACTUAL AND BUDGET-CAPITAL PROJECTS FUND**

FISCAL YEAR ENDED NOVEMBER 30, 2004

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE Favorable (Unfavorable)</u>
<u>REVENUE</u>			
Local Sources			
Assessments			
Interest	\$1229	\$200	\$1029
Donations			
Miscellaneous			
Total Local Sources	<u>1229</u>	<u>200</u>	<u>1029</u>
Federal Sources			
Grants	<u>0</u>	<u>0</u>	<u>0</u>
Total Federal Sources	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUE	\$1229	\$200	\$1029
<u>EXPENDITURES</u>			
Wages	0	0	0
Fringe Benefits			
Professional Fees			
Utilities			
Insurance			
Tools and Supplies			
Protection Costs			
Maintenance and Repair			
Dues and Subscriptions			
Telephone			
Travel and Education			
Miscellaneous			
Capital Outlay			
TOTAL EXPENDITURES	<u>\$0</u>	<u>\$200</u>	<u>\$200</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In (Out)	<u>-67468</u>	<u>0</u>	<u>-67468</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-66239	0	-66239
FUND BALANCE, DEC 1	<u>66239</u>		
FUND BALANCE, NOV 30	<u><u>\$0</u></u>		

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**BALANCE SHEET
TRUST AND AGENCY FUND**

FISCAL YEAR ENDED NOVEMBER 30, 2004

ASSETS

Investments	<u>\$26676</u>
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TOTAL ASSETS	<u><u>\$26676</u></u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Deferred Compensation Payable	<u>26676</u>
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Total Liabilities	<u>26676</u>
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FUND BALANCE	<u>0</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$26676</u></u>
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The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS FIRE AUTHORITY

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUND**

FISCAL YEAR ENDED NOVEMBER 30, 2004

	<u>BEGINNING OF THE PERIOD</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>END OF THE PERIOD</u>
<u>ASSETS</u>				
Investments	<u>\$20222</u>	<u>\$7780</u>	<u>\$1326</u>	<u>\$26676</u>
Total Assets	<u>\$20222</u>	<u>\$7780</u>	<u>\$1326</u>	<u>\$26676</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Deferred Compensation Payable	<u>20222</u>	<u>7780</u>	<u>1326</u>	<u>26676</u>
Total Liabilities	<u>20222</u>	<u>7780</u>	<u>1326</u>	<u>26676</u>
FUND BALANCE	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$20222</u>	<u>\$7780</u>	<u>\$1326</u>	<u>\$26676</u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Crystal Falls Fire Authority
Crystal Falls, Michigan 49920

We have audited the financial statements of the governmental activities and each major fund of the **Crystal Falls Fire Authority**, as of and for the year ended November 30, 2004, which collectively comprise the **Crystal Falls Fire Authority's** basic financial statements and have issued our report thereon dated May 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Crystal Falls Fire Authority's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Crystal Falls Fire Authority's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that were reported to the management of the **Crystal Falls Fire Authority**, Crystal Falls, Michigan, in a separate letter dated May 20, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Dianne S. Rostagno
DS ROSTAGNO CPA, P.C.

May 20, 2005

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Governing Board
Crystal Falls Fire Authority
Crystal Falls, MI 49920

In planning and performing the audit of the financial statements of the **Crystal Falls Fire Authority**, I considered the Authority's internal control structure to plan the auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect my report dated May 20, 2005 on the financial statements of the **Crystal Falls Fire Authority**. I will review the status of these comments during my next audit engagement. My comments and recommendations, which have been discussed with appropriate officials, are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. My comments are summarized as follows:

BUDGETARY

Problem

During the fiscal year ended November 30, 2004, the Authority incurred several expenditures which were in excess of the amounts appropriated.

Recommendation

It is recommended that close monitoring be done in regards to budgetary appropriations and expenditures.

I wish to express my appreciation to the Fire Authority officials for their assistance during my audit engagement.

This report is intended solely for the information and use of the **Crystal Falls Fire Authority**.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

May 20, 2005

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

May 20, 2005

Governing Board
Crystal Falls Fire Authority
Crystal Falls, MI 49927

I have audited the general purpose financial statements of the **Crystal Falls Fire Authority** for the year ended November 30, 2004, and have issued my report thereon dated May 20, 2005. Professional standards require that I provide you with the following information related to the audit:

My Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated January 17, 2005, my responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by me.

As part of the audit, I considered the internal control of the **Crystal Falls Fire Authority**. Such considerations were solely for the purpose of determining the audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the **Crystal Falls Fire Authority's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **Crystal Falls Fire Authority** are described in the Note to the general purpose financial statements.

Significant Accounting Policies (Continued)

With the exception of the implementation of GASB 34, there were no new accounting policies adopted and the application of existing policies was not changed during this year. I noted no transactions entered into by the **Crystal Falls Fire Authority** during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were no sensitive estimates affecting the financial statements as presented.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in my judgment, may not have been detected except through my auditing procedures. These adjustments may include those proposed by me but not recorded by the **Crystal Falls Fire Authority** that could potentially cause future financial statements to be materially misstated, even though I have concluded that such adjustments are not material to the current financial statements. I proposed no audit adjustments that could, in my judgment, either individually or in the aggregate, have a significant effect on the **Crystal Falls Fire Authority's** financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

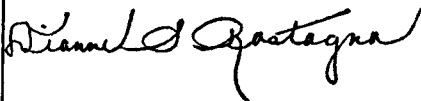
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the **Crystal Falls Fire Authority's** auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing the audit.

This information is intended solely for the use of the Board and management of the **Crystal Falls Fire Authority** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.